STATE RETIREMENT AND PENSION SYSTEM OF MARYLAND

STATE RETIREMENT *and* PENSION SYSTEM *of* MARYLAND

COMPREHENSIVE ANNUAL FINANCIAL REPORT

A PENSION TRUST FUND OF THE STATE OF MARYLAND

FOR THE YEAR ENDED JUNE 30, 2004

Prepared by:

State Retirement Agency of Maryland
120 East Baltimore Street
Baltimore, Maryland 21202

STATE RETIREMENT *and* PENSION SYSTEM *of* MARYLAND

Employees' Retirement & Pension Systems

The Employees' Retirement System (established in 1941) and the Employees' Pension System (established in 1980) combined account for more than half of all State Retirement and Pension System members. Active membership in the combined employees' systems at the end of fiscal year 2004 exceeded 86,000 participants. Membership includes all regular employees of the State of Maryland. In addition, 135 local governmental units have voluntarily joined the system to provide survivor, disability and retirement benefits for their employees. The governor, members of the General Assembly, and state correctional officers are also included as members of the combined employees' systems.

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November 18, 2004

Board of Trustees
State Retirement and Pension
System of Maryland
120 East Baltimore Street
Baltimore, MD 21202

Dear Members of the Board:

At your request, we have conducted our annual actuarial valuation of the State Retirement and Pension System of Maryland as of June 30, 2004.

Funding Objective
The funding objective of the System is to establish contribution rates which, over time, will remain level as a percent of payroll. In order to achieve this, a contribution rate has generally been determined which will provide for current cost (i.e., normal cost expressed as a level percent of payroll) plus (or less) a level percent of payroll amortization of the pre-2001 unfunded liability (or surplus) to the year 2020, and of each subsequent layer of unfunded liability (or surplus) over a 25 year period from the year it first arises. Maryland law now contains provisions (i.e. a corridor approach) to prevent large fluctuations in the contribution rate, while adequately funding the liabilities. As a result, the contribution rate for ERS is lower than the current cost.

Assumptions
The actuarial assumptions were recommended by the actuary and adopted by the Board of Trustees based on a review of the System's experience completed during Fiscal Year 2003.

The actuarial assumptions and methods used for this valuation meet the parameters set for disclosure presented in the financial section of the System's Comprehensive Annual Financial Report (CAFR) by Governmental Accounting Standards Board Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*.

The results and conclusions of this report are only valid for the July 1, 2004 plan year and should not be interpreted as applying in future years. Differences between our projections and actual amounts depend on the extent to which future experience conforms exactly to the assumptions used in this analysis. Actual amounts will differ from projected amounts to the extent that actual experience deviates from expected experience.

Data Reliance
In performing this analysis we relied on data and other information provided by Agency staff. We performed a limited review of the data for reasonableness and consistency and have not found material defects in the data. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or for relationships that are materially inconsistent. Such a review was beyond the scope of our assignment. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete.

Supporting Schedules
Certain information presented in the System's June 30, 2004 CAFR was derived from our June 30, 2004 actuarial valuation report. In this regard, we were responsible for producing all supporting schedules to be found in the Actuarial Section.

Additionally we were responsible for producing all data presented in the Schedule of Funding Progress, Schedule of Employer Contributions and Notes to the Required Supplementary Information shown in the Financial Section of the 2004 CAFR.

Certification
I, Robert Dezube, am a consulting actuary for Milliman. I am also a member of the American Academy of Actuaries and meet the Qualification Standards to render the actuarial opinion contained herein. On the basis of the foregoing, I certify that, to the best of my knowledge this report is complete and accurate and has been prepared in accordance with Maryland's Annotated Code and generally recognized and accepted actuarial principles and practices which are consistent with the applicable Guides to Professional Conduct, Amplifying Opinions, and supporting Recommendations and Interpretations of the American Academy of Actuaries.

Sincerely,

Milliman USA

Robert Dezube

Robert S. Dezube, F.S.A.
Principal

BOARD SUMMARY

This report presents the results of the June 30, 2004 actuarial valuation of the State Retirement and Pension System of Maryland (SRPS). The primary purposes of performing the annual actuarial valuation are to:

1) **determine the contributions** to be paid by the State in Fiscal Year 2006;
2) **measure and disclose**, as of the valuation date, the financial condition of the fund;
3) **indicate trends** in the financial progress of the fund;
4) **provide specific information** and documentation required by the Government Accounting Standards Board (GASB).

In this section of the report, we will present a summary of the above information in the form of:

- the actuary's comments;
- the prior year's experience of the Fund's assets, liabilities, contributions, and membership;
- a series of graphs highlighting key trends experienced by the Fund; and
- a tabular summary, intended for quick reference purposes, of all the principal results from this year's valuation, compared to the prior year's.

ACTUARY'S COMMENTS

The System's assets earned 16.5% (a non-weighted actuarial rate of return) for the year, which is 8.75% above the 7.75% assumption. This marks the first period of favorable market return (i.e. greater than the 7.75% assumption) since the year ending June 30, 2000. Even though the market return exceeded the 7.75% assumption, because of the unfavorable returns of the last few years, the actuarial, or smoothed, rate of return measured from this past year was only 5.2%, or approximately 2.6% less than our assumption.

For the System to earn at least 7.75% on an actuarial value basis, the market value of assets will have to earn returns in the future that are higher than the actuarial investment return assumption by enough to offset the unrecognized market losses that have been deferred under the "5-year averaging" method used to determine the actuarial value of assets. If future investment results are only sufficient to earn 7.75% on a market basis, then the deferred market investment losses will gradually be reflected in actuarial assets which will put upward pressure on the contribution rate.

The System's unfunded actuarial liability was $2,841 million as of June 30, 2004. This compares to a $2,343 million unfunded liability measured as of the June 30, 2003 valuation. In relative terms, the overall System funding ratio of assets to liabilities fell from 93.3% in 2003, to 92.2% this year. This funded status is still substantially better than would have been expected when the State first established the goal to extinguish unfunded liabilities by the year 2020.

The investment loss increased the unfunded actuarial liability by $830 million. This was partially offset by a liability gain of $525 million, which indicates that actual experience during the year ending June 30, 2004 was more favorable than the non-investment actuarial assumptions. Thus the total System experienced a net actuarial loss of $305 million.

In the 2001 legislative session, the Legislature changed the method used to fund the two largest Systems of the SRPS, the Teachers Combined System and the State portion of the Employees Combined System to a corridor method. Under this funding approach, the State appropriation is fixed at the June 30, 2000 valuation rate as long as the actuarial funded status of these Systems remains in a corridor of 90% funded to 110% funded. Once the ratio falls outside of this corridor, the appropriated rate will be adjusted towards the underlying actuarially calculated rate. This year, for the first time, the State portion of the Employees Combined System (ECS) fell out of the corridor necessitating an increase in the ECS contribution rate. The Teachers' Combined System (TCS) is likely to fall out of the corridor next year absent very favorable investment returns.

The results of this valuation report disclose the actuarially calculated rate which will be used for purposes of disclosing the Annual Required Contribution rate under Government Accounting Standards Board Statement No. 25. The analysis in this report will focus on the actuarially determined rate but will strive to footnote the appropriated or budgeted rate where applicable.

Finally, while the results are not on the favorable side this year, we emphasize again, as we have so often in the past, that financing of any retirement system is a long term proposition. Annual fluctuations are to be expected and should not by themselves be cause for concern.

The balance of this section summarizes System trends, and provides the principal details on this year's experience.

PRIOR YEAR EXPERIENCE

ASSETS

Plan assets for this Fund are measured on both a market value and an actuarial or smoothed value basis. The actuarial smoothing method, essentially reflects only 20% of the difference between (a) the asset value if they had earned the assumed rate of 7.75%, and (b) the actual market value. In periods of high returns, this method significantly defers the amount of asset gains above the assumed return of 7.75%. Conversely, in periods of returns below assumed, recognition of the losses is deferred. The primary advantage of this smoothing technique is contribution stability. The System does not feel the full impact of lower (or higher) costs when asset values fluctuate dramatically.

For the plan year ending June 30, 2004, the Fund earned a positive 16.5% on a market value basis and a positive 5.2% on a smoothed basis. While on a market basis, the Fund experienced an investment gain of $2,299 million, the actuarial or smoothed basis grew by less than 7.75% which produced a loss of $830 million. The specific changes between the prior year amounts and this year's are presented below.

Item (In Millions)	**Market Value**	**Actuarial Value**
June 30, 2003 value	$26,648	$32,631
June 30, 2003 Municipal Withdrawals	(0)	(0)
Employer Contributions	632	632
Member Contributions	204	204
Benefit Payments	(1,651)	(1,651)
Expected Investment Earnings (7.75%)	2,035	2,499
Expected Value June 30, 2004	$27,868	$34,315
INVESTMENT GAIN (LOSS)	2,299	(830)
June 30, 2004 value	$30,167	$33,485

LIABILITIES

Three different measures of liabilities are calculated for this fund: a total value of future obligations (PVB), an actuarial liability (EAN), and an accrued benefit liability (PVAB). Section III of this report describes the development of each. Only the actuarial liability is analyzed in terms of a gain or loss experience, which then is used to determine the System's funding and accounting (GASB) disclosures. During the plan year ending in 2004, the actuarial liabilities experienced an overall gain of $525 million, which is 1.45% of the total actuarial liability being measured. The primary cause for liability experience being better than anticipated this past year was annual salary increases being less than anticipated.

LIABILITIES (In Millions)	**Total Value (PVB)**	**Actuarial (EAN)**	**Accounting (PVAB)**
June 30, 2003	$42,549	$34,975	$29,010
June 30, 2004	$43,716	$36,326	$30,400

UNFUNDED LIABILITIES AND FUNDING RATIOS

The difference between assets and liabilities is the unfunded liability. This is measured in two ways: unfunded actuarial liabilities, which compare the *actuarial* liabilities to the actuarial asset value, and unfunded *accrued* benefits, which compare the present value of benefits accrued as of the valuation date to the market value of assets. These amounts are shown for June 30, 2003 and June 30, 2004, as well as the corresponding funding ratios for each (assets divided by liabilities).

Item (In Millions)	**Actuarial**	**PVAB**
6/30/2003 Net Surplus (Unfunded)	$2,343	$2,362
Funding Ratio	93.3%	91.9%
6/30/2004 Net Surplus (Unfunded)	$2,841	$233
Funding Ratio	92.2%	99.2%

CONTRIBUTIONS

In this summary, we present overall the State contribution rate, and compare it to the rate developed in the June 30, 2003 actuarial valuation. In summary, due to the net impact of investment losses and liability gains, the overall System contribution requirement, payable in FY 2006 on the GASB disclosure basis, has increased by 0.45% of payroll. It is important to note that this is not the contribution rate upon which the State will base its budget in either FY 2005 or FY 2006. This analysis compares the underlying cost calculations which will be used to disclose the State's pension expense for GASB reporting purposes. The actual appropriations are calculated on a Corridor Funding Method for the two largest plans. This approach produced payroll-weighted averages of 7.97% at June 30, 2003, increasing to 8.46% as of June 30, 2004.

Rate as Percent of Covered Payroll – GASB Disclosure	
June 30, 2003 State Annual Required Contribution Rate	9.97%
Increase due to Assumption Changes	0%
Increase due to Investment Loss	0.89%
Decrease due to Liability Gain	(0.44%)
June 30, 2004 State Annual Required Contribution Rate	10.42%

Rate as Percent of Covered Payroll – Budget (Corridor Method)	
June 30, 2003 State Appropriation Rate	7.97%
Increase due to Shift in Payroll	0.01%
Increase in Systems not within the Corridor	0.12%
Increase due to ECS falling out of Corridor	0.36%
June 30, 2004 State Appropriation Rate	8.46%

In terms of dollar amounts under the budget (corridor method), the estimated State contribution increases were as follows:

- $28.1 million because the Employees' System funding ratio dropped below 90%, causing the contribution rate to increase from 4.73% to 5.76% of payroll pursuant to the corridor method
- $7.7 million to reflect the value of automatic 50% surviving spouse annuities for retired members that was not reflected in prior years' costs for the State Police, Judges, and LEOPS Systems
- $2.1 million due to payroll growth
- $2.2 million due to the recognition of market losses from prior years under the actuarial value of assets methodology for the State Police, Judges, and LEOPS Systems.

The estimated State contribution decreased by approximately $1.2 million due to other factors.

MEMBERSHIP

There are four types of plan participants: current active workers, previous terminations who retain a right to a deferred vested benefit, previous terminations who are not vested but have member contributions in the System (inactives), and participants in pay status. Below, we compare totals in each group between June 30, 2003 and 2004.

As shown below, there was an overall increase in participation during the year of 0.4%.

	June 30, 2004	June 30, 2003	Change
Active Participants	185,861	190,021	(0.1%)
Terminated Vested Participants	36,523	35,302	14.9%
Inactive Participants	10,388	10,271	(24.6%)
Participants In Pay Status	94,880	90,803	3.9%
Total Participants	**327,652**	**326,937**	**1.4%**

Trends

One of the best ways to measure or evaluate the financial condition of a pension plan, is to examine the historical trends that are evolving. Below, we present three charts which present trend information from 1993 through the end of 2004, on the System's assets and liabilities, annual cash flows in and out of the fund, and the State contribution rate. Our comments on each follow.

Chart A:
Assets/Liabilities

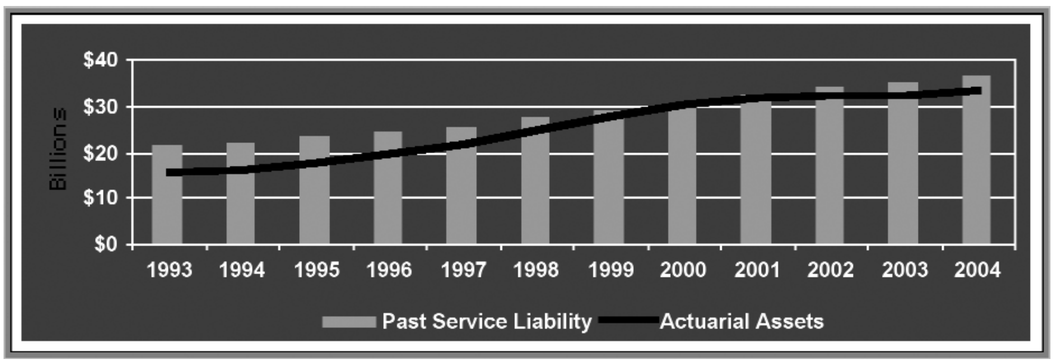


Chart B:
Cash Flows

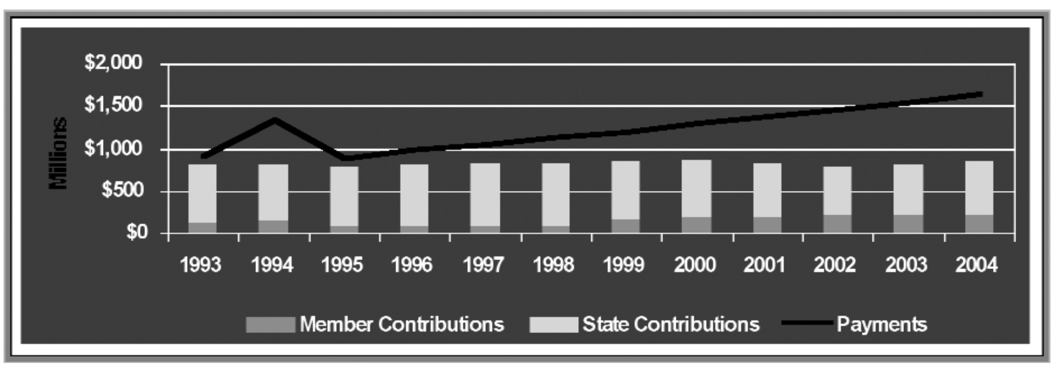
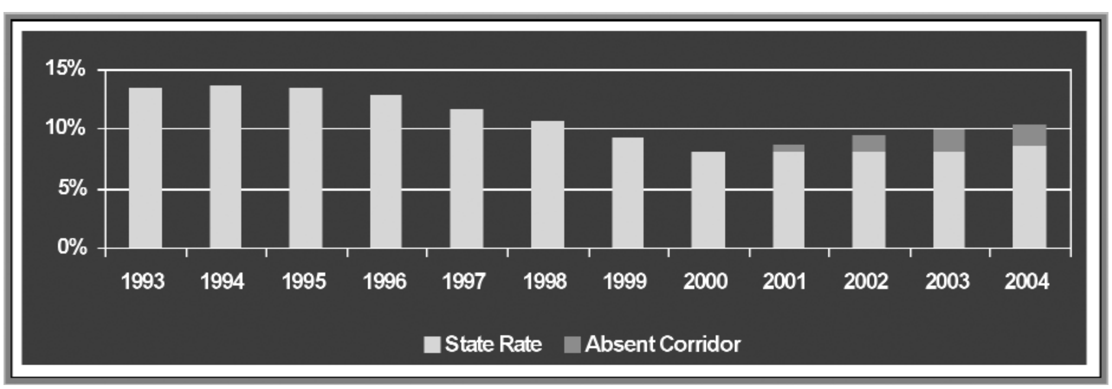


Chart C:
State Contribution Rate



Comments

Chart A places into perspective the aforementioned investment and liability performance losses of this past year. The ratio of actuarial assets to liabilities (i.e., funding ratio) has grown since the early 1980's. The unfavorable investment experience from 2000 through 2003 has eroded the funded ratio from its peak in 2000.

Chart B presents an emerging trend that will have investment implications. It is a trend being faced by many state-wide retirement systems, with the aging of our baby boomer generations. Payments to retirees are on the increase, while cash into the fund, from employer and employee contributions, is stable or declining. The ECS contribution rate will start increasing in FY 2006 and it is likely that the TCS contribution rate will also start to increase in FY 2007 under the corridor method.

Finally, Chart C, looks only at the State contribution rate which is used each year to determine the upcoming fiscal year State appropriation. It shows the impact of the past decade's sustained investment gains, a continuous lowering of the rate until 2000. Effective with the 2001 valuation, the State appropriations are performed under a corridor funding method for the two largest plans. The appropriation remained essentially level for a few years before increasing this year. In the absence of favorable investment and/or demographic experience, the contribution rates can be expected to increase to the level indicated if the corridor method had not been adopted. Without the corridor method, the State contribution in FY 2006 would be 1.96% of payroll higher than the amount to be budgeted under the corridor method.

ACTUARIAL METHODS AND ASSUMPTIONS

FUNDING METHOD

The System uses the entry age normal cost method with projection to determine the actuarial accrued liability on which future employer contribution rates will be based. Under this funding method, a total contribution rate is determined which consists of two elements, the normal cost rate and the unfunded actuarial liability rate.

The unfunded actuarial accrued liability (UAAL) is being amortized, as a level percentage of payroll, in two distinct pieces. The UAAL which existed as of the June 30, 2000 actuarial valuation is being amortized over the remaining 16-year period to June 30, 2020. Each new layer of UAAL arising subsequent to June 30, 2000 is being amortized over a 25 year period. The equivalent single amortization period is 30 years.

ASSET VALUATION METHOD

Assets are valued for funding purposes using a five-year moving average. Under this method, the year end actuarial asset value equals 1/5 of the current fiscal year end fair value, as reported in the financial statements, plus 4/5 of the "expected market value ". For purposes of this calculation, the "expected market value" is the preceding fiscal year's actuarial asset value, adjusted for the current fiscal year's cash flows with interest accumulated at the actuarial assumed rate of return on investments.

ACTUARIAL ASSUMPTIONS

The assumptions used for the actuarial valuation were recommended by the System's independent actuary, based upon periodic analyses of the System's experience, and adopted by the Board of Trustees. Differences between assumed and actuarial experience (i.e., actuarial gains and losses) are part of the unfunded actuarial liability. The following significant assumptions were used in the actuarial valuation as of June 30, 2004:

- a rate of return on investments of 7.75 percent compounded annually (adopted June 30, 2003);
- projected salary increases of 4 percent compounded annually, attributable to inflation (adopted June 30, 2003);
- additional projected salary increases ranging from 0.00 percent to 11.96 percent per year attributable to seniority and merit (adopted June 30, 2003);
- post-retirement benefit increases ranging from 3 percent to 4 percent per year depending on the system (adopted June 30, 2003);
- rates of mortality, termination of service, disablement and retirement based on actual experience during the period from 1981 through 2002 (adopted June 30, 2003); and
- an increase in the aggregate active member payroll of 4 percent annually (adopted June 30, 2003).

ACCOUNTING STATEMENT INFORMATION

THE TOTAL SYSTEMS OF THE STATE OF MARYLAND

	2004	2003
A. FASB #35 basis		
1. Present value of benefits accrued to date:		
a. Members currently receiving payments	$18,347,530,077	$16,851,546,911
b. Former vested members	694,371,447	721,570,911
c. Active members	11,357,661,070	11,436,792,752
2. Total present value of accrued benefits (1 (a) + 1 (b) + 1 (c))	30,399,562,594	29,009,910,574
3. Assets at market value	30,166,724,000	26,727,822,000
4. Unfunded value of accrued benefits (2-3)	$ 232,838,594	$ 2,232,088,574
5. Ratio of assets to value of benefits (3/2)	99.23%	92.13%
B. GASB #25 basis		
1. Actuarial accrued liabilities for retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$19,041,901,524	$17,573,117,822
2. Actuarial accrued liabilities for current employees	17,283,802,541	17,401,483,044
3. Total actuarial accrued liability (1+2)	36,325,704,065	34,974,600,866
4. Net actuarial assets available for benefits	33,484,656,570	32,631,464,884
5. Unfunded actuarial accrued liability (3-4)	$ 2,841,047,495	$ 2,343,135,982

Summary of Unfunded Actuarial

	Actuarial Liabilities For				
Valuation Date June 30,	Active Member Contributions	Retirees, Term Vested and Inactives	Active Members Employer Fin. Portion	Total Liabilities	Actuarial Value of Assets
1995	$ 1,503,414,664	$ 10,622,091,333	$ 10,967,030,922	$ 23,092,536,919	$ 17,666,581,953
1996	1,538,891,321	11,552,405,340	11,149,586,097	24,240,882,758	19,455,279,738
1997	1,502,991,713	12,714,514,210	11,165,702,737	25,383,208,660	21,920,695,723
1998	1,505,629,954	12,866,065,299	13,045,239,668	27,416,934,921	24,850,355,227
1999	1,580,530,209	13,583,779,499	13,311,070,338	28,475,380,046	27,646,578,997
2000	1,662,397,147	14,636,664,952	13,980,804,631	30,279,866,730	30,649,380,445
2001	1,752,989,299	15,939,733,140	14,777,219,354	32,469,941,793	31,914,778,425
2002	1,858,783,727	16,783,959,580	15,488,540,705	34,131,284,012	32,323,263,153
2003	1,973,371,055	17,573,117,822	15,428,111,989	34,974,600,866	32,631,464,884
2004	2,064,065,193	19,041,901,524	15,219,737,348	36,325,704,065	33,484,656,570

Summary of Retirees and Beneficiaries Added to and Removed from Rolls

Fiscal Year Ended	Added to Rolls		Removed from Rolls		Rolls-End of Year		% Increase in Annual Allowances	Average Annual Allowance
	Number	Annual Allowance	Number	Annual Allowances	Number	Annual Allowances		
1995	4,839	$43,915,820	2,143	$10,702,372	64,594	$827,273,808	7.10%	$12,807
1996	4,784	47,649,016	2,316	11,930,488	67,062	901,855,498	9.02	13,448
1997	7,157	119,374,380	2,731	33,641,211	71,488	987,588,667	9.51	13,815
1998	5,217	90,497,436	2,366	30,768,198	74,339	1,047,317,905	6.05	14,088
1999	5,514	93,034,053	2,375	30,628,858	77,478	1,109,723,100	5.96	14,323
2000	5,758	115,003,079	2,463	31,450,868	80,773	1,211,400,269	7.41	14,998
2001	6,071	145,073,765	2,659	34,172,397	84,185	1,322,301,637	9.15	15,708
2002	5,925	107,545,768	2,743	36,803,883	87,367	1,393,043,522	5.35	15,945
2003	6,216	123,497,444	2,780	38,449,020	90,803	1,478,091,946	6.11	16,278
2004	6,822	152,664,871	2,745	38,223,588	94,880	1,592,533,229	7.74	16,785

Liabilities / Solvency Test

Ratio of Assets to Actuarial Liabilities						
Active Member Contributions	**Retirees Term Vested and Inactives**	**Active Members Employer Fin. Portion**	**Funded Ratio (Assets/Liab. Coverage)**	**Unfunded Actuarial Accrued Liability (UAAL)**	**Covered Payroll**	**UAAL as % of Covered Payroll**
100 %	100 %	50.52 %	76.50 %	$ 5,425,954,966	$ 5,532,149,777	98 %
100	100	57.08	80.26	4,785,603,020	5,640,833,581	85
100	100	68.99	86.36	3,462,512,937	5,657,384,942	61
100	100	80.33	90.64	2,566,579,694	5,900,456,000	43
100	100	93.77	97.09	828,801,049	6,312,417,000	13
100	100	102.64	101.22	(369,513,715)	6,725,870,000	(5)
100	100	96.24	98.29	555,163,368	7,255,036,000	8
100	100	88.33	94.70	1,808,020,859	7,867,794,200	23
100	100	84.81	93.30	2,343,135,982	8,134,419,291	29
100	100	81.33	92.18	2,841,047,495	8,069,480,852	35

Statement of Changes in Total Actuarial Present Value of All Accrued Benefits

(Expressed in Millions)

	Accumulated Benefit Obligation (FASB 35)
Actuarial present value of accrued benefits at June 30, 2003	$29,010
Increase (decrease) during year attributable to:	
Passage of Time	2,186
Benefits Paid – FY 2004	(1,651)
Benefits Accrued, Other Gains/Losses	855
Plan Amendment & Changes in Actuarial Assumptions	0
Net Increase	1,390
Actuarial present value of accrued benefits at June 30, 2004	$30,400

Report of the Actuary on the Valuation of the State Retirement and Pension System of Maryland
as of June 30, 2004

Summary of Principal Results

	June 30, 2004	June 30, 2003	% Change
1. Participant Data			
Number of:			
Active Members	185,861	190,021	(2.2)%
Retired Members and Beneficiaries	94,880	90,803	4.5
Vested Deferred Members	36,523	35,302	3.5
Inactive Status Members	10,388	10,271	1.1
Total Participants	327,652	326,397	0.4
Covered Annual Salaries of Active Members*	$ 8,069,480,852	$ 8,134,419,291	(0.8)
Annual Retirement Allowances for Retired Members and Beneficiaries	$ 1,592,533,229	$ 1,478,091,946	7.7
2. Assets and Liabilities			
Total Actuarial Liability	$36,325,704,065	$34,974,600,866	3.9
Assets for Valuation Purposes	33,484,656,570	32,631,464,884	2.6
Unfunded Actuarial Liability (Surplus)	$2,841,047,495	$ 2,343,135,982	21.2
FASB Accrued Liability	$30,399,562,594	$29,009,910,574	4.8
Market Value of Assets	30,166,724,000	26,727,822,000	12.9
Unfunded FASB Accrued Liability (Surplus)	$ 232,838,594	$ 2,282,088,574	(89.8)

* *Does not include members of State Police and LEOPS who have elected the DROP.*

Report of the Actuary on the Twenty-fifth Annual Valuation of the Teachers' Combined System of the State of Maryland
as of June 30, 2004

Summary of Principal Results

	June 30, 2004	June 30, 2003	% Change
1. Participant Data			
Number of:			
Active Members	95,962	97,298	(1.4)%
Retired Members and Beneficiaries	45,691	43,675	4.6
Vested Deferred Members	14,379	13,642	5.4
Inactive Status Members	5,426	5,219	4.0
Total Participants	161,458	159,834	1.0
Covered Annual Salaries of Active Members	$ 4,543,443,669	$ 4,522,202,402	0.5
Annual Retirement Allowances for Retired Members and Beneficiaries	$ 973,734,838	$ 907,422,987	7.3
2. Assets and Liabilities			
Total Actuarial Liability	$21,724,178,194	$21,152,062,565	2.7
Assets for Valuation Purposes	20,155,414,671	19,626,676,057	2.7
Unfunded Actuarial Liability (Surplus)	$ 1,568,763,523	$ 1,525,386,508	2.8
FASB Accrued Liability	$18,286,822,230	$17,671,561,409	3.5
Market Value of Assets	18,187,297,200	16,108,367,651	12.9
Unfunded FASB Accrued Liability (Surplus)	$ 99,525,030	$ 1,563,193,758	(93.6)

Report of the Actuary on the Twenty-fifth Annual Valuation of the Employees' Combined System of the State of Maryland
as of June 30, 2004

Summary of Principal Results

	June 30, 2004	June 30, 2003	% Change
1. Participant Data			
Number of:			
Active Members	86,444	89,286	(3.2)%
Retired Members and Beneficiaries	46,472	44,591	4.2
Vested Deferred Members	22,065	21,593	2.2
Inactive Status Members	4,872	4,968	(1.9)
Total Participants	159,853	160,438	0.4
Covered Annual Salaries of Active Members	$ 3,337,542,706	$ 3,424,054,274	(2.5)
Annual Retirement Allowances for Retired Members and Beneficiaries	$523,078,287	$ 483,702,850	8.1
2. Assets and Liabilities			
Total Actuarial Liability	$12,621,578,337	$12,083,197,248	4.5
Assets for Valuation Purposes	11,514,654,915	11,244,007,832	2.4
Unfunded Actuarial Liability (Surplus)	$ 1,106,923,422	$ 839,189,416	31.9
FASB Accrued Liability	$10,266,563,919	$ 9,728,910,255	5.5
Market Value of Assets	10,395,821,867	9,156,181,278	13.5
Unfunded FASB Accrued Liability (Surplus)	$ (129,257,948)	$ 572,728,977	(122.6)

Report of the Actuary on the Fifty-fifth Annual Valuation of the State Police Retirement System of the State of Maryland
as of June 30, 2004

Summary of Principal Results

	June 30, 2004	June 30, 2003	% Change
1. Participant Data			
Number of:			
Active Members	1,445	1,542	(6.3)%
Retired Members and Beneficiaries	1,790	1,695	5.6
Vested Deferred Members	29	28	3.6
Inactive Status Members	15	13	15.4
Total Participants	3,279	3,278	0.0
Covered Annual Salaries of Active Members*	$ 76,444,973	$ 80,838,519	(5.4)
Annual Retirement Allowances for Retired Members and Beneficiaries	$ 62,331,011	$ 56,691,315	10.0
2. Assets and Liabilities			
Total Actuarial Liability	$1,200,604,840	$1,062,383,238	13.0
Assets for Valuation Purposes	1,287,981,246	1,285,200,743	0.2
Unfunded Actuarial Liability (Surplus)	$ (87,376,406)	$ (222,817,505)	60.8
FASB Accrued Liability	$1,128,130,884	$ 986,821,179	14.3
Market Value of Assets	1,112,668,245	996,338,671	11.7
Unfunded FASB Accrued Liability (Surplus)	$ 15,462,639	$ (9,517,492)	262.5

** Does not include members who elected DROP.*

Report of the Actuary on the Twenty-fifth Annual Valuation of the Pension Plan of Judges and Their Surviving Spouses
as of June 30, 2004

Summary of Principal Results

	June 30, 2004	June 30, 2003	% Change
1. Participant Data			
Number of:			
Active Members	283	287	(1.4)%
Retired Members and Beneficiaries	309	306	1.0
Vested Deferred Members	10	10	0.0
Inactive Status Members	4	3	33.3
Total Participants	606	606	0.0
Covered Annual Salaries of Active Members	$ 32,937,016	$ 33,168,859	(0.7)
Annual Retirement Allowances for Retired Members and Beneficiaries	$ 17,539,241	$ 17,171,254	2.1
2. Assets and Liabilities			
Total Actuarial Liability	$312,285,089	$279,008,117	11.9
Assets for Valuation Purposes	250,272,253	240,207,561	4.2
Unfunded Actuarial Liability (Surplus)	$ 62,012,836	$ 38,800,556	59.8
FASB Accrued Liability	$297,860,265	$265,105,527	12.4
Market Value of Assets	223,735,442	193,773,533	15.5
Unfunded FASB Accrued Liability (Surplus)	$ 74,124,823	$ 71,331,994	3.9

Report of the Actuary on the Fourteenth Annual Valuation of the Law Enforcement Officers' Pension System of the State of Maryland
as of June 30, 2004

Summary of Principal Results

	June 30, 2004	June 30, 2003	% Change
1. Participant Data			
Number of:			
Active Members	1,675	1,481	13.1%
Retired Members and Beneficiaries	581	503	15.5
Vested Deferred Members	25	18	38.9
Inactive Status Members	56	44	27.3
Total Participants	2,337	2,046	14.2
Covered Annual Salaries of Active Members*	$ 77,369,072	$ 69,469,540	11.4
Annual Retirement Allowances for Retired Members and Beneficiaries	$ 15,155,236	$ 12,479,011	21.5
2. Assets and Liabilities			
Total Actuarial Liability	$454,814,985	$382,287,032	19.0
Assets for Valuation Purposes	271,586,578	225,111,179	20.6
Unfunded Actuarial Liability (Surplus)	$183,228,407	$157,175,853	16.6
FASB Accrued Liability	$408,003,847	$342,486,608	19.1
Market Value of Assets	242,747,153	184,658,278	31.5
Unfunded FASB Accrued Liability (Surplus)	$165,256,694	$157,828,330	4.7

** Does not include members who elected DROP.*

Report of the Actuary on the Thirteeneth Annual Valuation of the Local Fire and Police System of the State of Maryland
as of June 30, 2004

Summary of Principal Results

	June 30, 2004	June 30, 2003	% Change
1. Participant Data			
Number of:			
Active Members	52	127	(59.1)%
Retired Members and Beneficiaries	37	33	12.1
Vested Deferred Members	15	11	36.4
Inactive Status Members	15	24	(37.5)
Total Participants	119	195	(39.0)
Covered Annual Salaries of Active Members	$ 1,743,416	$ 4,685,697	(62.8)
Annual Retirement Allowances for Retired Members and Beneficiaries	$ 694,616	$ 624,529	11.2
2. Assets and Liabilities			
Total Actuarial Liability	$ 12,242,620	$ 15,662,666	(21.8)
Assets for Valuation Purposes	4,746,907	10,261,512	(53.7)
Unfunded Actuarial Liability (Surplus)	$ 7,495,713	$ 5,401,154	38.8
FASB Accrued Liability	$ 12,181,449	$ 15,025,596	(18.9)
Market Value of Assets	4,453,548	8,787,437	(49.3)
Unfunded FASB Accrued Liability (Surplus)	$ 7,727,901	$ 6,238,159	23.9

SCHEDULE OF ACTIVE MEMBERSHIP VALUATION DATA BY PLAN

Teachers' Retirement

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
1995	18,011	$ 877,613,890	$ 48,727	5.05%
1996	16,850	843,710,972	50,072	2.76
1997	15,619	799,096,847	51,162	2.18
1998	14,346	760,092,729	52,983	3.56
1999	13,043	719,046,552	55,129	4.05
2000	11,634	671,990,806	57,761	4.77
2001	10,396	638,864,807	61,453	6.39
2002	9,270	604,172,528	65,175	6.06
2003	8,199	555,522,563	67,755	3.96
2004	7,197	502,487,678	69,819	3.05

Teachers' Pension

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
1995	61,749	$ 2,108,777,126	$ 34,151	4.00%
1996	63,818	2,221,492,064	34,810	1.93
1997	66,978	2,352,121,326	35,118	0.88
1998	71,435	2,559,167,548	35,825	2.01
1999	75,578	2,831,567,375	37,465	4.58
2000	79,297	3,057,854,648	38,562	2.93
2001	82,901	3,355,335,942	40,474	4.96
2002	87,086	3,718,881,395	42,704	5.51
2003	89,099	3,966,679,839	44,520	4.25
2004	88,765	4,113,119,415	46,337	4.08

Employees' Retirement

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
1995	15,306	$ 491,241,364	$ 32,095	3.62%
1996	14,850	490,784,260	33,049	2.97
1997	13,469	445,726,994	33,093	0.13
1998	13,149	439,012,253	33,388	0.89
1999	12,657	436,772,178	34,508	3.35
2000	12,213	444,062,220	36,360	5.37
2001	11,962	457,899,607	38,280	5.28
2002	11,722	470,462,717	40,135	4.85
2003	11,347	462,088,968	40,723	1.47
2004	10,489	438,455,277	41,801	2.65

SCHEDULE OF ACTIVE MEMBERSHIP VALUATION DATA BY PLAN
(continued)

Employees' Pension

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
1995	71,328	$ 1,955,054,635	$ 27,409	3.91%
1996	70,215	1,984,030,014	28,257	3.09
1997	68,195	1,953,776,617	28,650	1.39
1998	68,893	2,009,173,639	29,164	1.79
1999	70,426	2,176,887,154	30,910	5.99
2000	73,212	2,385,187,733	32,579	5.40
2001	76,024	2,626,959,051	34,554	6.06
2002	78,584	2,886,208,074	36,728	6.29
2003	77,939	2,961,965,306	38,004	3.47
2004	75,955	2,964,093,317	39,024	2.68

Judges' Retirement

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
1995	260	$ 23,063,700	$ 88,707	3.35%
1996	264	23,917,131	90,595	2.13
1997	268	25,007,240	93,311	3.00
1998	273	25,552,537	93,599	0.31
1999	283	29,576,854	104,512	11.66
2000	283	30,146,837	106,526	1.93
2001	281	30,554,439	108,735	2.07
2002	281	31,824,096	113,253	4.16
2003	287	33,168,859	115,571	2.05
2004	283	33,149,832	117,137	1.36

State Police Retirement

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
1995	1,577	$ 60,677,175	$ 38,476	3.13%
1996	1,544	60,823,269	39,393	2.38
1997	1,588	62,936,492	39,633	0.61
1998	1,635	70,663,067	43,219	9.05
1999	1,647	75,601,750	45,903	6.21
2000	1,636	79,388,246	48,526	5.71
2001	1,578	79,382,508	50,306	3.67
2002	1,589	81,141,520	52,323	4.01
2003	1,542	80,838,519	52,424	0.19
2004	1,445	77,531,613	53,655	2.35

SCHEDULE OF ACTIVE MEMBERSHIP VALUATION DATA BY PLAN
(continued)

Law Enforcement Officers' Pension

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
1995	301	$ 11,368,811	$ 37,770	2.80%
1996	294	11,645,942	39,612	4.88
1997	317	12,904,416	40,708	2.77
1998	755	30,511,663	40,413	(0.72)
1999	862	36,435,243	42,268	4.59
2000	1,130	50,301,859	44,515	5.32
2001	1,318	60,438,291	45,856	3.01
2002	1,410	65,915,519	46,748	1.95
2003	1,481	69,469,540	46,907	0.34
2004	1,675	78,628,672	46,942	0.07

Local Fire and Police

Valuation Date As of June 30,	Number	Annual Payroll	Annual Average Pay	% Increase Avg. Pay
1995	134	$ 4,353,076	$ 32,486	4.67%
1996	133	4,429,929	33,308	2.53
1997	168	5,815,010	34,613	3.92
1998	177	6,287,842	35,525	2.63
1999	178	6,529,920	36,685	3.27
2000	184	6,937,750	37,705	2.78
2001	140	5,600,965	40,007	6.11
2002	181	7,188,351	39,715	(0.73)
2003	127	4,685,697	36,895	(7.10)
2004	52	1,782,520	34,279	(7.09)